

\*Group 12 (17 hospitals)

Ashland - MMC Rehab.  
Beloit - Abaris Center  
Chippewa Falls - St. Joseph's C.D.U.  
Elkhorn - Walworth County  
Fond du Lac - Fond du Lac County  
Juneau - Dodge County  
Marshfield - Norwood Health Center  
Menomonee - Dunn County Hospital  
New Richmond - St. Croix Health Center  
Owen - Clark County  
Platteville - Unified Counseling  
Port Washington - DePaul Rehab.  
Racine - A-Center  
Reedsburg - Tri-County Human Services  
Waukesha - Northview  
West Bend - Washington County Mental Health  
Whitehall - Trempealeau County Health

\* Groups 11 and 12 consist of non-acute care facilities with a cut-off point of 50 licensed beds. All those with 50 or more beds are in group 11. Those with less than 50 beds are in group 12.

If the subject hospital exceeds the adjusted average compensation per employe target, proceed to the following steps.

- E. Calculate the effect on total expenses of the hospital's exceeding the target and obtain a percentage effect by taking total salaries and employe benefits over the target and dividing by total base year operating expenses.
- F. Take the percentage effect derived in Step E and apply to base year Medicaid expenses to determine the Medicaid effect.

Appendix IIB lists the data requirements and the corresponding source documents for implementing the average compensation per employe target; Appendix IIC is a hypothetical illustration of the methodology.

HCFA-179 # 850153 Date Rec'd 7/1/85  
Supersedes 840144 Date Appr. 12/2/85  
State Rep. In. \_\_\_\_\_ Date Eff. 7/1/85

APPENDIX II A

GEOGRAPHICAL WAGE INDEXES

<u>CITY</u>	<u>1982 FEDERAL REGISTER*</u>		
Milwaukee	$\frac{1.0080}{.9240}$	=	1.0909
La Crosse	$\frac{.9016}{.9240}$	=	.9758
Eau Claire	$\frac{.9806}{.9240}$	=	1.0613
Appleton-Oshkosh	$\frac{1.0124}{.9240}$	=	1.0957
St. Paul-Minneapolis	$\frac{.9802}{.9240}$	=	1.0608
Madison	$\frac{1.0257}{.9240}$	=	1.1101
Kenosha	$\frac{1.0789}{.9240}$	=	1.1676
Janesville-Beloit	$\frac{.8579}{.9240}$	=	.9285
Green Bay	$\frac{.9740}{.9240}$	=	1.0541
Duluth-Superior	$\frac{.9193}{.9240}$	=	.9949
Racine	$\frac{.9240^{**}}{.9240}$	=	1.0000
Rural	$\frac{.9179}{.9240}$	=	.9934
Sheboygan	$\frac{.8439}{.9240}$	=	.9133
Wausau	$\frac{.9769}{.9240}$	=	1.0573

\*Federal Register, Volume 4b, No. 189, September 30, 1981, Table 111A, pgs. 43015 and 43016. These indices will be updated if subsequently adjusted by HCFA.

\*\*Racine is used as the constant.

HCFA-179 # 85-0153 Date Rec'd 7/1/85  
 Supersedes 84-0144 Date Appr. 12/2/85  
 State Rep. In. \_\_\_\_\_ Date Eff. 7/1/85

APPENDIX II B

DATA REQUIREMENTS FOR THE ACPE TARGET

<u>DATA</u>	<u>SOURCE OF DATA</u>
1. Total Salaries	1. Worksheet H, Line 1 or Worksheet A, Column 1, Line 72.
2. Total Employee Benefits	2. Worksheet H, Line 2.
3. Total FTEs	3. Worksheet K, Line 52, Total Column or Cost Report, Pg. 3, Part III, Line 2.
4. Fiscal Year End	4. Top Right-hand Corner of Virtually Every Page of the Cost Report.
5. Fiscal Year End Adjustment Factor to Bring All Hospitals Forward or Backward to FYE 12/31/81 for Wages and Salaries.	5. DRI Salary Index (Increase/ Decrease) For the # of Appli- cable Quarters.
6. Fiscal Year End Adjustment Factor to Bring All Hospitals Forward or Backward to FYE 12/31/81 for Employee Benefits.	6. DRI Employee Benefits Index Increase (Decrease) For the # of Applicable Quarters.
7. SMSA/Non-SMSA Designation.	7. Routine Cost Limit Handout: Col. 2.
8. Geographic Location Index Adjustment Factor to Bring All Hospitals to a Comparable ACPE.	8. Geographical Wage Index Handout.
9. Hospital Bed Size.	9. Supplemental Worksheet I, Part III, Approved Beds Column, Total Hospital Line.

HCFA-179 # 850153 Date Rec'd 7/1/85  
Supersedes 840144 Date Appr. 12/2/85  
State Rep. In. \_\_\_\_\_ Date Eff. 7/1/85

APPENDIX II C

ILLUSTRATION

<u>Hospital</u>	<u>City</u>	<u>FYE</u>	<u>Bed Size</u>
XYZ Hospital	Eau Claire	12/31/81	310

1. Total Salaries \$11,570,311

Total Fringe Benefits 1,656,168

Total FTEs 831.97

\$11,570,311 + \$1,656,168  
831.97

\$15,898 ACPE for XYZ.

2. Since all hospitals will be brought to a December FYE using the hospital workers wage and salary index, no FYE adjustment is necessary for XYZ hospital since it is a 12/31/81 FYE hospital.

3. Using the September 1981 Federal Wage Indexes with Appleton-Oshkosh as the constant, the Eau Claire Wage Index is as follows:

$$\frac{.9806 \text{ Eau Claire}}{1.0124 \text{ Appleton-Oshkosh}} = \underline{\underline{.9686}}$$

Therefore, XYZ Hospital's geographically adjusted average compensation per employe is:

$$\$15,898 / .9686 = \underline{\underline{\$16,413}}$$

4. Assume there are 10 hospitals in the peer group being evaluated. Assume further that their geographically adjusted and FYE-adjusted total compensation per employe is as follows:

Hospital A \$17,000

Hospital B 15,500

Hospital C 16,250

Hospital D 15,800

Hospital E 16,800

Hospital F 15,250

Hospital G 16,000

Hospital H 16,200

Hospital I 15,900

Hospital XYZ \$16,413

HCFA-179 # 850153 Date Rec'd 7/1/85  
Supercedes 840144 Date Appr. 12/2/85  
State Rep. In. \_\_\_\_\_ Date Eff. 7/1/85

The allowable target of this ten-hospital sample is the 60th percentile, Hospital H, at \$16,200. Therefore, XYZ Hospital is \$213 per FTE over the maximum (\$16,413 - \$16,200) and would have \$177,210 ( $\$213 \times 831.97$ ) taken out of their base year total salaries and fringe benefits.

\*Note that if a hospital above the target has a fiscal year ending in other than the fourth quarter (October - December of 1981), the amount of compensation over the maximum will have to be adjusted by a FYE adjustment for combined salaries and fringe benefits. For example, if XYZ Hospital would have had a FYE of September 30, 1981, and assuming average compensation over the target of \$213 and the combined salaries and fringe benefits index of 1.02, the average compensation over the target would be \$209 ( $\$213/1.02$ ).

HCFA-179 # 850153 Date Rec'd 7/1/85  
Supersedes 84-0144 Date Appr. 12/2/85  
State Rep. In. \_\_\_\_\_ Date Eff. 7/1/85

### APPENDIX III

#### TARGET FOR EMPLOYEES PER FACTORED PATIENT DAY

##### I. Introduction

Compensation (wages, salaries and fringe benefits) account for sixty percent or more of operating expenses in the hospital industry. Therefore, a system designed to limit hospital reimbursement to the costs incurred by an efficiently and economically operated hospital needs to include a measure for determining whether staffing levels at a given hospital meet that criteria.

The employee per factored patient day target uses the patient day as the basic unit of service. The acuity of inpatient services is accounted for by the factors applied to the various categories of patient day (such as medical/surgical and intensive care). The general adult medical/surgical day is assigned a factor of 1.00. The other types of patient days are then assigned a value of less than or greater than 1.00; the actual value assigned is a function of the number of work hours consumed by the particular day in relation to the medical/surgical day. In this way, the factoring accounts for the varying levels of care required by different patient types. Outpatient services are accounted for by outpatient equivalent days. The effect of education programs is neutralized by excluding employees in the nursing school and the intern-resident service cost centers (per the Medicaid Supplemental Cost Report) from the standard. Comparability among hospitals is facilitated by using the peer group currently used by the Wisconsin Hospital Rate Review Program to the extent possible.

Costs associated with full time equivalent employees (FTEs) that exceed the sixtieth percentile of the peer group will be disallowed.

##### II. Methodology

The following steps will be used for deriving an employee per factored patient day target for a given hospital.

The basic computational formula for the standard is:

$$\text{FEPPD} = \frac{\text{TFTE} \times 365}{\text{TFD} + \text{OPE}}, \text{ where } 100 \times 365 = \frac{36,500 \text{ (workdays)}}{10,000} = 365$$

FEPPD = factored employees per patient day,

TFTE = the total FTE reported by the hospital on Supplementary Form K in the base year, minus nursing school and intern-resident service FTEs,

TFD = the total factored hospital inpatient days. The factored days are obtained by multiplying the number of patient days in the various categories by their respective factors from Table I and adding the products so obtained,

OPE = the outpatient equivalent days which are computed as:

HCFA-179 # 85-0153 Date Rec'd 7/1/85  
Supercedes 84-0144 Date App'd 12/2/85  
State Rep. In. \_\_\_\_\_ Date Eff. 7/1/85  
(total outpatient revenue / total inpatient ancillary revenue/TFD).

STEPS:

A. Compute the hospital's TFD as follows:

The TFD are arrived at by multiplying the number of patient days in each category provided by the hospital in the base year by the respective factor and adding the sum of the products. Table I below lists the categories of patient days and their associated factors.\*

\*The factors were derived by the Standards Development Committee (SDC) of the Wisconsin Hospital Rate Review Program. The SDC was searching for weighting factors that would enable it to compare patient day volume among hospitals in spite of the varying types of patients and patient-acuity mix. The basis for the factors was Monitrend statistics on the number of work-hours utilized in the care of each type of patient. Using these statistics, each SDC member proposed a set of factors for each type of patient day. The consensus of the SDC as a whole on the value of each factor and all the factors relative to each other was then approved as the final set of factors (Table I).

The SDC was composed of 13 members, six of whom were hospital administrators or chief financial officers; additionally there were four State of Wisconsin representatives on the Committee and three representatives of the health insurance industry. Before final SDC approval of the factors, input was solicited from all hospitals, from other interested parties, and statewide hearings were held. Major concerns were responded to and taken into consideration.

HCFA-179 # 85-0153 Date Rec'd 7/1/85  
Supersedes 84-0144 Date Appr. 12/2/85  
State Rep. In. \_\_\_\_\_ Date Eff. 7/1/85

TABLE I

<u>Category of Patient Days</u>	<u>Factor</u>
General ADULT Medical/Surgical	1.00
General PEDIATRIC Med/Surgical	1.20
Neonatal Intensive Care	3.00
Mixed Intensive Care (med/surg/coronary/pediatric)	2.75
Intermediate Acute Care	1.90
Burn Center	2.75
Obstetric	1.10
Self-Care	.30
Psychiatric	1.00
Alcoholism/Chemical Dependency	.85
Rehabilitation	.80
Orthopedic	1.20
Hospice	1.00
Regular Newborn Nursery	.92

The TFD will be computed based on the categories of patient days reported by the hospital on Medicaid Supplemental Cost Report, Worksheet I, for the base year. Inpatient days reported in categories other than those listed in TABLE I will be treated as medical/surgical days. Newborn days, not reported on Worksheet I, will be picked up from page three of the Medicare report.

B. Compute the hospital's OPE as follows:

The OPE days are arrived at by dividing the hospital total inpatient ancillary revenue by the TFD, and then dividing the quotient so obtained into the total outpatient revenue. The total outpatient revenue can generally be obtained by adding Column 7 and Column 9 of Line 37b of Form C of the base year final Medicare cost report. The total hospital inpatient revenue can usually be obtained from Column 3, Line 37b, Form C of the base year final Medicare cost report.

C. Compute the hospital's TFTE as follows:

The hospital's TFTE are arrived at by subtracting from the number of FTE reported by the hospital in the base year in the Total column, Line 52, Supplemental Worksheet K, the number of FTEs reported by the hospital in the base year in the Total column on Lines 21 and 22, Supplemental Worksheet K.

HCFA-179 # 85-615-3 Date Rec'd 7/1/85  
 Supersedes 84-6144 Date Appr. 12/2/85  
 27 State Rep. In. \_\_\_\_\_ Date Eff. 7/1/85



D. Compute the hospital's FEPPD:

$$\text{FEPPD} = \frac{\text{TFTE} \times 365}{\text{TFD} + \text{OPE}}$$

E. Compare the hospital's FEPPD to the sixtieth percentile of the peer group. The groups used for the Average Compensation Per Employee target will also be used for this target.

If the hospital's FEPPD is not greater than the sixtieth percentile, no further action is needed. If the hospital's FEPPD exceeds the sixtieth percentile, then the Medicaid proportion of the employment costs (wages, salaries and fringe benefits) associated with the FTEs in excess of the sixtieth percentile will be disallowed.

HCFA-179 # 85-0153 Date Rec'd. 7/1/85  
Supersedes 84-0144 Date Appr. 12/2/85  
State Rep. In. \_\_\_\_\_ Date Eff. 7/1/85

ILLUSTRATION OF METHODOLOGY

A. Compute Hospital H's TFD.

Assume that Hospital H reported the following patient days on Supplemental Worksheet I for its base year:

	Approved* Beds	Patient Days	Occupancy
Medical/Surgical		75	
Obstetric		9	
Pediatrics			
Special Care: ICU		8	
CCU			
Other - Orthopedic		12	
- Self-Care		4	
Psychiatric			
Other - Arthritic		12	
Total Days		120	

\* The hospital also reported 10 newborn days on line 8, Part II of Page 3 of the Medicare report. The TFD for Hospital H then are:

HCFA-179 # 85-0153 Date Rec'd 7/1/85  
Supersedes 84-0144 Date Appr. 12/2/85  
State Rep. In. \_\_\_\_\_ Date Eff. 7/1/85

<u>Category of Days</u>	<u>Number of Days</u>	<u>Factor</u>	<u>Factored Days</u>
Medical/Surgical	75	1	75
Obstetric	9	1.1	9.9
ICU	8	2.75	22
Orthopedic	12	1.2	14.4
Self-Care	4	.3	1.2
Arthritic (not a category in Table I, therefore consider these Medical/ Surgical)	12	1	12
Newborn	10	.92	<u>9.2</u>
TFD =			135.42

B. Compute the hospital's OPE days.

Assume that Hospital H reported \$15,000 in total outpatient revenue and \$165,000 in total hospital inpatient ancillary revenue. The OPE days for Hospital H are:

$$\text{OPE} = \frac{15,000}{(165,000/135.42)} = 12.31.$$

C. Compute the hospital's TFTE.

Assume that Hospital H reported total FTE in the base year of 2.00, of that 0.13 FTE were in the Nursing School Cost Center and 0.27 were in the Intern-Resident Service Cost Center. TFTE for Hospital H then is:

$$\text{TFTE} = 2.00 - 0.13 - 0.27 = 1.60$$

D. Compute the hospital's FEPPD.

$$\text{FEPPD} = \frac{1.60 \times 365}{135.42 + 12.31} = 3.95$$

E. Compare the hospital's FEPPD to the sixtieth percentile of the peer group; compute and disallow the Medicaid share of the compensation associated with the number of FTEs in excess of the sixtieth percentile.

Assume that Hospital H is in a 5 hospital peer group with the following FEPPD in the base year:

HCFA-179 # 85-0153 Date Rec'd 2/1/85  
 Supersedes 84-0144 Date Appr. 12/2/85  
 State Rep. In. \_\_\_\_\_ Date Eff. 7/1/85